

Montana Property Taxes: 1995 – 2007

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A review of Montana property taxes over the last 12 years reveals the following key points.

Statewide Total Property Taxes

Total property taxes increased 64% from \$739 million to \$1,210 million (Table 1). The taxable value of all property in the state increased only 12%, from \$1,838 million to \$2,059 million. Thus, most of the increase resulted from changes in mill levies. The state-wide average mill rate rose from 402 mills to 588 mills, an increase of 46%.

Table 1 Total Property Taxes

	1995	2007	% Change
Taxes Levied (\$ millions)	\$ 739	\$ 1,210	64%
Taxable Value (\$ millions)	\$ 1,838	\$ 2,059	12%
Average Mill Rate	402	588	46%

Source: Montana Department of Revenue

Table 2 describes property taxes by function. The largest portion goes for education, including the state-wide levies for K-12, vo tech and higher education, and county and local school district levies. Property taxes for education increased by \$204 million or 44% in the last 12 years. Property taxes for counties increased \$140 million, more than doubling. Property taxes for cities and towns also doubled, and SIDs almost quadrupled as rapid development occurred in some parts of the state.

Table 2 Property Taxes by Function

\$ millions	1995	2007	Change
Education	\$ 467	\$ 671	\$ 204
County	\$ 129	\$ 269	\$ 140
Cities/Towns	\$ 53	\$ 110	\$ 57
Misc. Districts	\$ 51	\$ 39	\$ (12)
Other*	\$ 6	\$ -	\$ (6)
SIDs	\$ 33	\$ 121	\$ 88
Total	\$ 739	\$ 1,210	\$ 471

Other* = State Assumption of Welfare in 1996; \$0 in 2007

Source: Montana Department of Revenue

Personal income in Montana rose faster than property taxes so property taxes declined from 4.6% of income to 3.9% (Table 3). Growth in personal income averaged 5.6% per year. About half of that amount was inflation, about 1% was population growth, and the remainder was growth in real income per person.

Table 3 Property Taxes and Personal Income

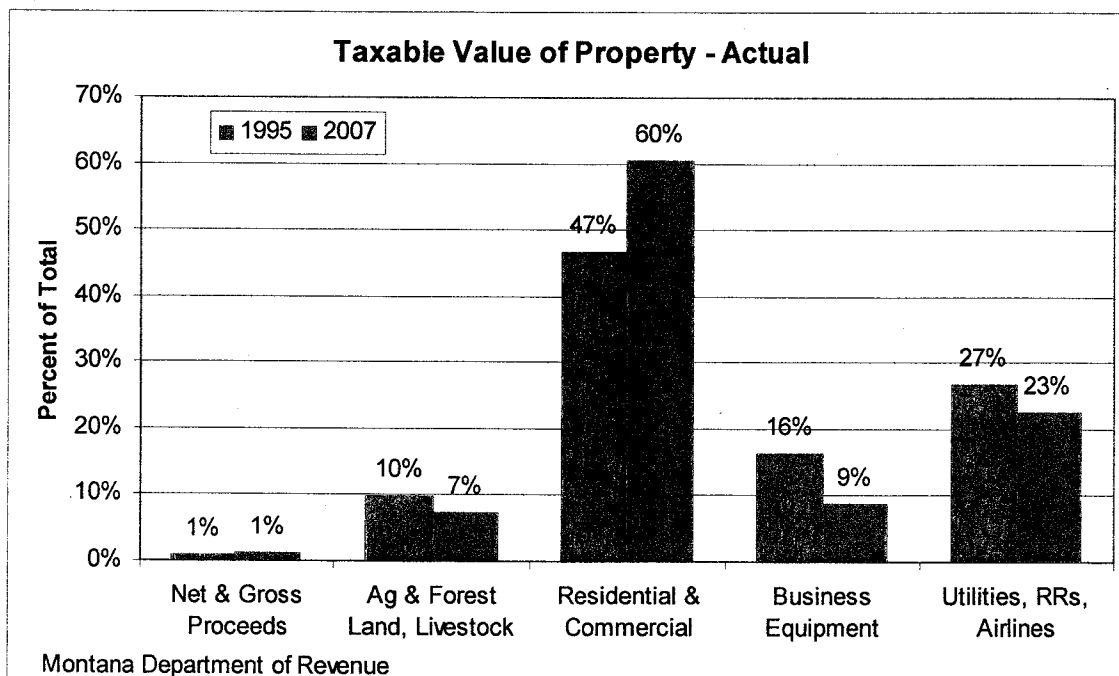
	1995	2007	% Change
Taxes Levied (\$millions)	\$ 739	1,210	64%
Personal Income (\$millions)	16,084	31,090	93%
Property Tax / Personal Income (%)	4.6%	3.9%	

Sources: Montana Department of Revenue and US Bureau of Economic Analysis

Changes in the Property Tax Base

Residential and commercial property's *share of the property tax base* (taxable value) increased from 47% in 1995 to 60% in 2007.

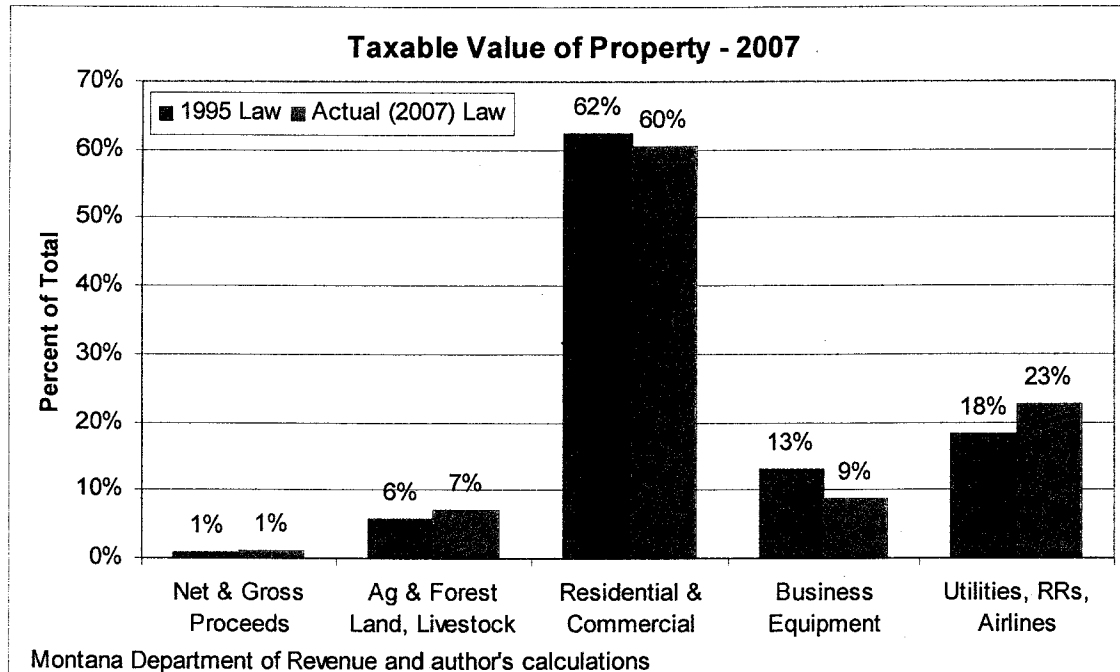
Figure 1 Taxable Value Shares in 1995 and 2007



The shift in the property tax burden toward residential and commercial property resulted mainly from new construction and increases in property values. Changes in the property tax laws eased the burden slightly. While property taxes were reduced on business equipment, electrical generation and telecommunications property, and livestock were exempted from tax, a number of provisions benefited owners of residential and commercial property. A "homestead" exemption now excludes 33.2 percent of the value of residential property, and a similar "comstead" exemption excludes 14.6 percent of

commercial property. The 1996 reappraisal was gradually phased in over six years, and the 2002 reappraisal will not be fully phased in until 2008. Taxable value rates have been reduced as reappraisals were entered into taxable values. If 1995 laws had remained in effect, Class 4's share of the tax base would have increased even more - to 62% (Figure 2). In addition, current taxable values do not reflect any of the appreciation in property prices that has occurred since 2002.

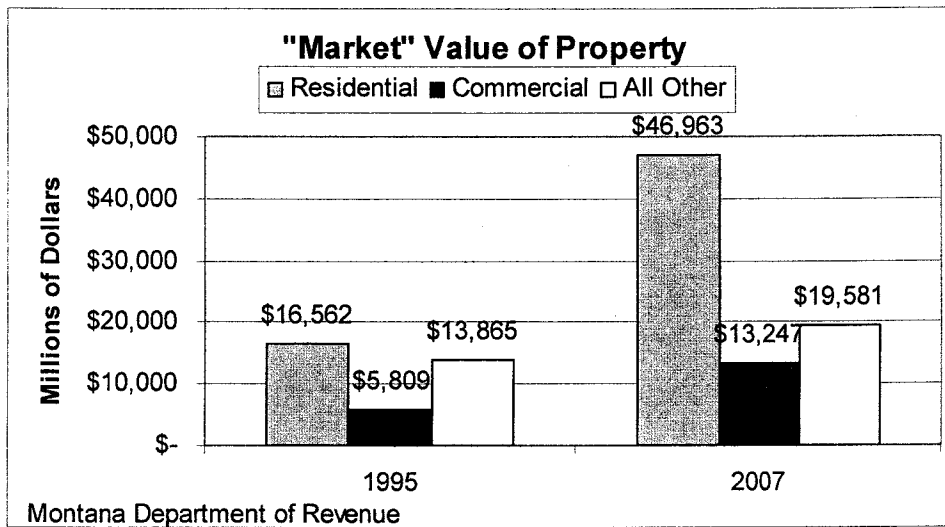
Figure 2 Taxable Value Shares in 2007 under 1995 Law and Actual (2007) Law



Note: The law changes incorporated into this analysis include phase-in of reappraisals, homestead & comstead exemptions, changes in taxable value rates for ag and forest land, residential and commercial, business equipment, and electrical generation/telecomm, and exclusion of livestock. Not included: Exempting business equipment if value less than 20,000 per location, and increases in market values since the 2002 reappraisal.

To reiterate, the various changes in the property tax law, taken all together, did not shift the burden onto residential and commercial property. In fact, the law changes on net favored class 4 property. Residential and commercial property does shoulder a bigger share of the burden these days, but that is because that is the kind of property that has grown the fastest (Figure 3). The market value of residential property nearly tripled over these 12 years, while commercial property more than doubled. The market value of all other property increased about 40%. Put another way, the growth in the market value of residential and commercial property – including both appreciation of existing properties and new construction – accounted for 87% of all the growth in the market value of taxable property in Montana, and all of the other classes accounted for only 13% of the growth. In this sense, it is not surprising that the share of property taxes paid by class 4 has been increasing.

Figure 3 “Market” Value of Property in 1995 and 2007



Residential Property Tax Rates and Reappraisal

Property tax rates vary around the state – in fact they vary from school district to school district depending on the exact mill levy. An especially big factor is the difference between the appraised value for tax purposes and the market value. In Flathead and Gallatin counties, for example, most homes are appraised at well below market, so the tax rates are lower as a percentage of true market value (Table 4). In contrast, effective tax rates are highest where homes are appreciating more slowly, such as Cascade and Yellowstone counties. This doesn't mean that property taxes are especially burdensome in places with low appreciation, however. Cascade and Yellowstone counties have the lowest residential property tax burdens when measured relative to income. While their taxes are high percentages of home value, the home values themselves are relatively modest. For example, the average home value in Cascade County is just over half the average in Gallatin County.

Table 4 Residential Property Taxes in Selected Counties

County	Percent of Market Value	Percent of Income
Cascade	1.0%	2.7%
Flathead	0.8%	3.1%
Gallatin	0.7%	3.1%
Missoula	0.9%	3.9%
Yellowstone	1.0%	2.9%

Source: Tax Foundation, from US Bureau of the Census, American Community Survey (2006). Data is not available for smaller counties.

The Department of Revenue is currently conducting a reappraisal of all residential and commercial property in Montana, the first such reappraisal since 2002. The

reappraisal will begin to affect taxable values in tax year 2009 – that is, for bills payable in November, 2009 and May, 2010. Many properties in the southern and western portions of Montana have appreciated substantially since 2002, and taxable values can be expected to rise. Even if statewide increases in taxable value are offset by cuts in taxable value rates, property taxes may rise in areas where price appreciation has been greatest.